

EX PARTE OR LATE FILED



United States Telephone Association

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September 28, 1994

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SEP 28 1994

Mr. William F. Caton
Acting Secretary
Federal Communications Commission
1919 M Street, N.W., Room 222
Washington, D. C. 20554

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FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF THE SECRETARY

Re: Ex Parte Meeting
CC Docket No. 94-1

Dear Mr. Caton:

On September 27, 1994, Whit Jordan, Ed Lowry, and Frank McKennedy, representing the United States Telephone Association (USTA), met with Ruth Milkman of Chairman Hundt's Office. The attached document, labeled Attachment 1, was distributed and discussed. The discussion was consistent with USTA's written filings in this docket.

Also on September 27, 1994, Laurits Christensen, Bill Taylor, Mike O'Brien, Whit Jordan and Frank McKennedy, on behalf of USTA, met with Michael Katz of the Office of Plans and Policy. The attached document, labeled Attachment 2, was distributed and discussed. This discussion was consistent with USTA's written filings in this docket.

The original and a copy of the ex parte meeting notice are being filed in the Office of the Secretary on September 28, 1994 due to the lateness of the meetings. Please include it in the public record of this proceeding.

Respectfully submitted,

A handwritten signature in cursive script that reads "Linda Kent".

Linda Kent
Associate General Counsel

Attachments

cc: Ruth Milkman
Michael Katz

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LEC Price Cap Review--USTA Position

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Revised price cap plan must provide:

- Market-determined investment and efficiency incentives
- Greater pricing flexibility in competitive access markets
- Streamlined regulation of new services
- Closer to regulatory parity among service providers

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OFFICE OF THE SECRETARY

Adaptive regulation is needed now!

- Telecommunications playing critical and expanded role in economy
- Momentous changes in industry, converging technologies, market barriers falling, customers require flexibility, substantial competition

Eliminate ties to cost-plus regulation (sharing/LFAM)

- Greater incentives for investment and efficiency
- Elimination ensures that customers in less competitive markets are not affected by price declines in competitive markets
- LEC earnings have been at the low end of range of reasonableness

Productivity offset based on long-term industry total factor productivity (TFP)

- TFP is only appropriate measure
- Studies show around 2%
- 3.3% is unreasonably high
- Should not recapture short-term earnings
- Only correct for long-term trend in TFP

Increase pricing flexibility as markets become more competitive

- Classify discrete markets based on degree of competition
- Where competitors have facilities that can provide service on request, additional pricing flexibility provides greater alternatives for all customers

USTA Proposal will provide significant economic benefits

USTA Productivity CC Docket No. 94-1 LEC Price Cap Performance Review

The Commission Should Adopt a Corrected, Lower Productivity Offset

- Should be based on Long Term Total Factor Productivity (TFP)
 - TFP study is not affected by arbitrary cost allocations of common costs
 - Based on historical verifiable data
 - No legitimate basis for a separate additive productivity offset in common line ("g")
- Should subtract U.S. TFP from Price Cap LECs TFP

Christensen Associates performed a TFP study of the price cap LECs

- Study represented 95% of the price cap LECs
- Period studied was from 1984 - 1992
- Resulted in a TFP differential of 2.3%

Price Cap LECs TFP	2.6%
Minus U.S. TFP	<u>.3%</u>
TFP Differential	2.3%
- Christensen Associates performed extensive reviews of data for reasonableness and appropriateness
- Based on publicly available data

NERA updated Frentrup/Urestky and Spavins/Lande Studies

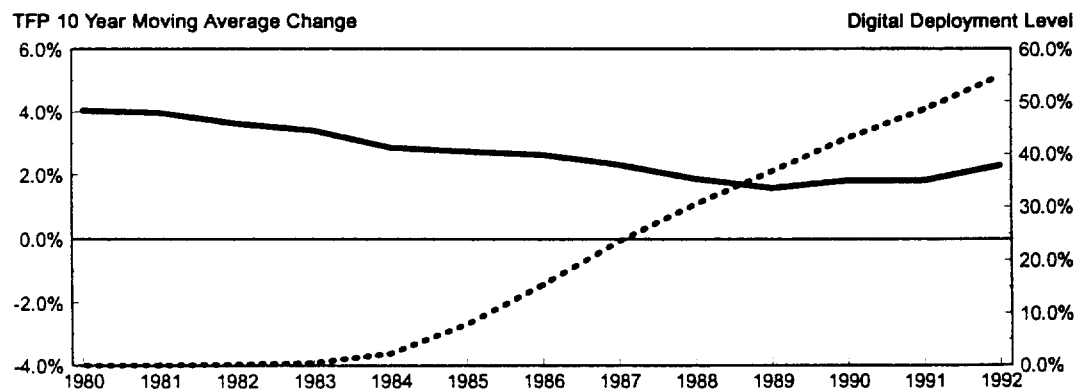
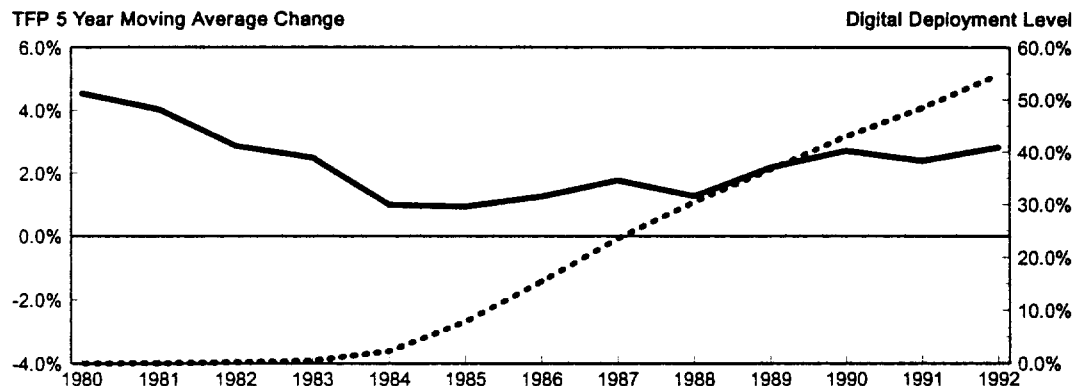
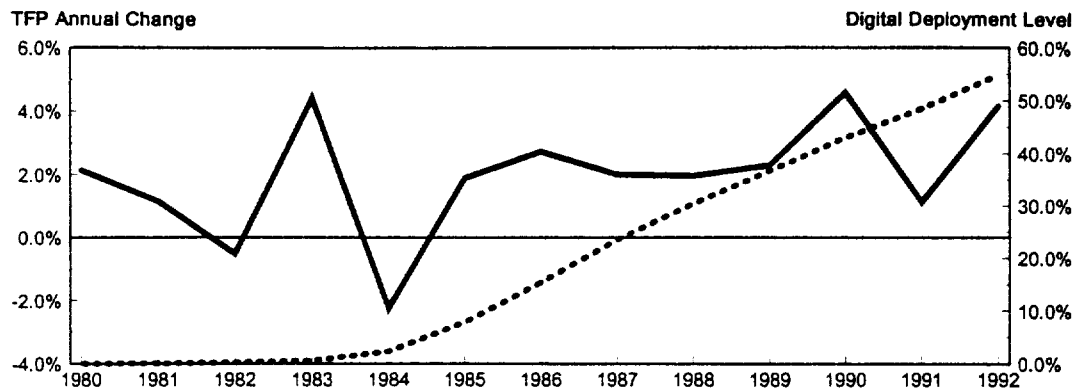
- Updated Frentrup/Urestky study to use actual historic data through 1992. (2.7%)
- Updated Spavins/Lande study through 1992. (2.1%)
- The average of these two studies (2.4%) support reasonableness of Christensen Associates study of 2.3%

There is no rationale to increase the productivity offset

- No need for input price adjustment
- Productivity offset higher than historic TFP would not mirror the competitive market place
- Consumer Productivity Dividend (CPD) should be eliminated
- CPD is not included in a competitive market place
- Higher productivity offset than historic TFP results in a disincentive
- IXCs have benefited by a total of \$2 Billion for CPD
- Amount embedded in Price Cap LECs' rates annually will be \$1 Billion for CPD

Summary of Telecommunications Productivity Studies

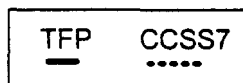
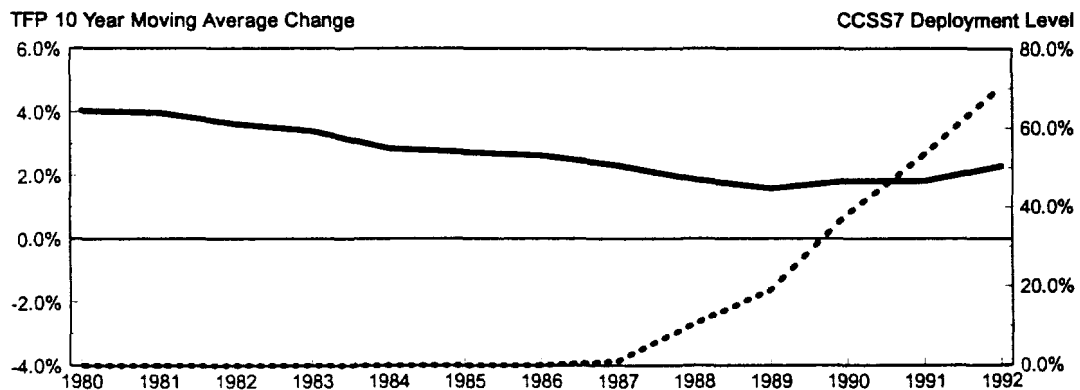
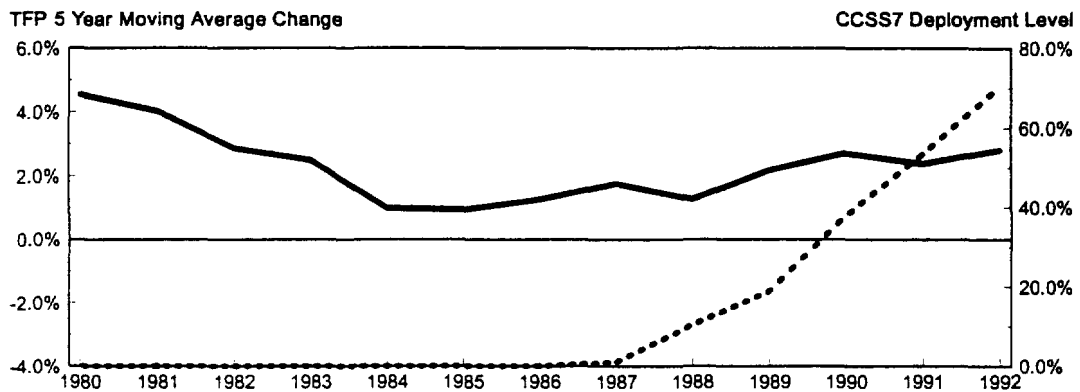
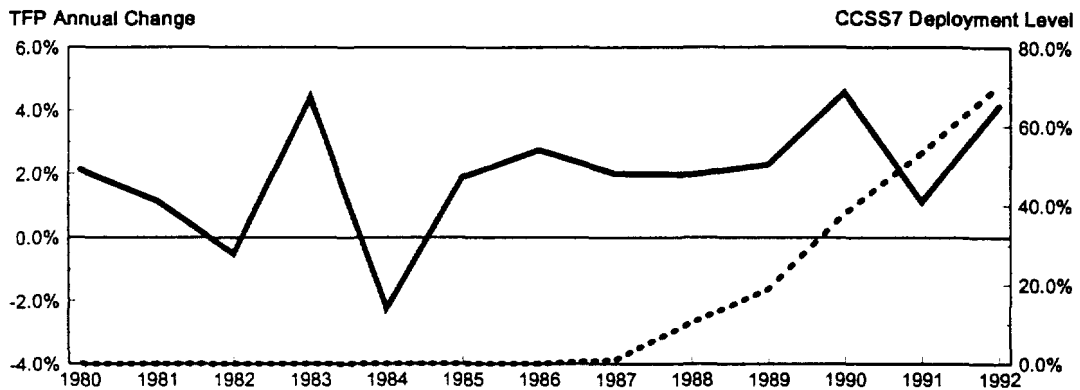
<u>Study</u>	<u>TFP</u>	<u>TFP Differential</u>	<u>Period</u>
American Productivity & Quality Ctr Communications Industry	3.9	2.2	1948-85
AT&T Bell System Study Bell System	3.2	1.9	1947-79
Christensen, Christensen & Schoech Bell System	3.2	2.1	1947-79
Christensen, Schoech & Meitzen LEC Industry	2.6	2.3	1984-92
Crandall & Galst Total Industry	3.3	2.2	1960-88
Jorgenson, Gollop & Fraumeni Telephone, Telegraph & Misc. Comm.	2.9	2.1	1948-79
Spavins Indirect Total Industry		1.85	1930-89



TFP Digital

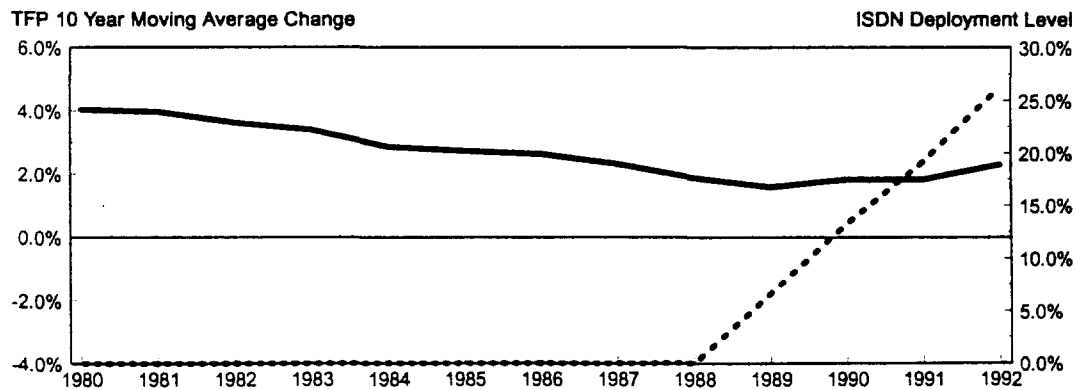
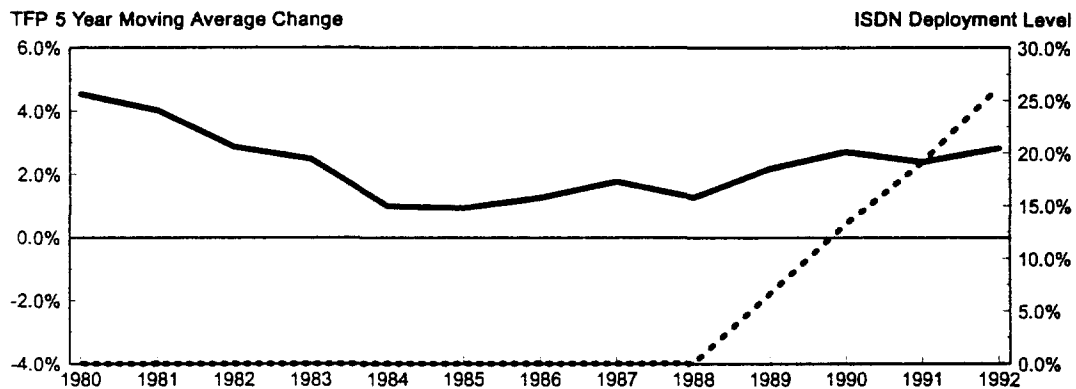
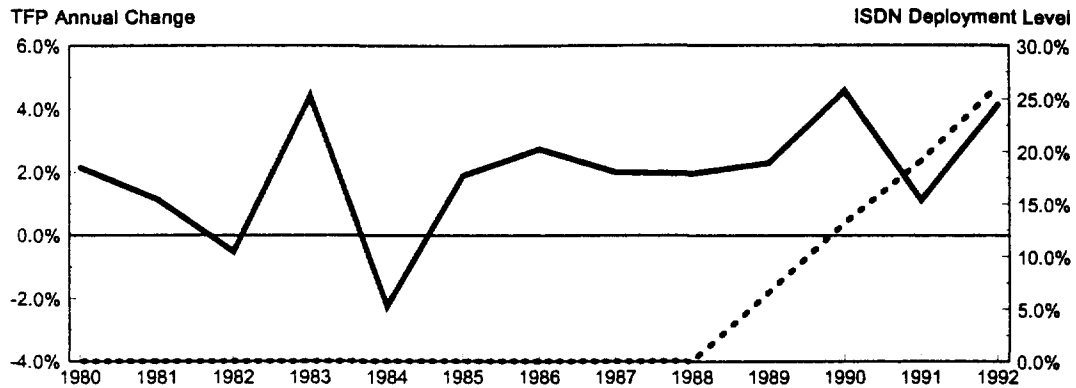
Notes

1. TFP Data from 2 Studies by Laurits Christensen:
 - a. "Total Productivity Growth in the U.S. Telecommunications Industry and the U.S. Economy: 1951-1987" filed in North Dakota Public Service Commission Case No. PU-2320-90-149, October 1, 1990.
 - b. "Productivity of the Local Operating Telephone Companies Subject to Price Regulation." filed in CC Docket 94-1, May 3, 1994
2. Technology Data from Tables 1 through 8 of data submitted by selected LECs in response to the Order in FCC 89-624 dated December 12, 1990 and updated with data from the annual FCC Report 43-07. Technology data is from all BOCs.



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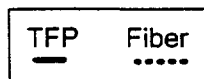
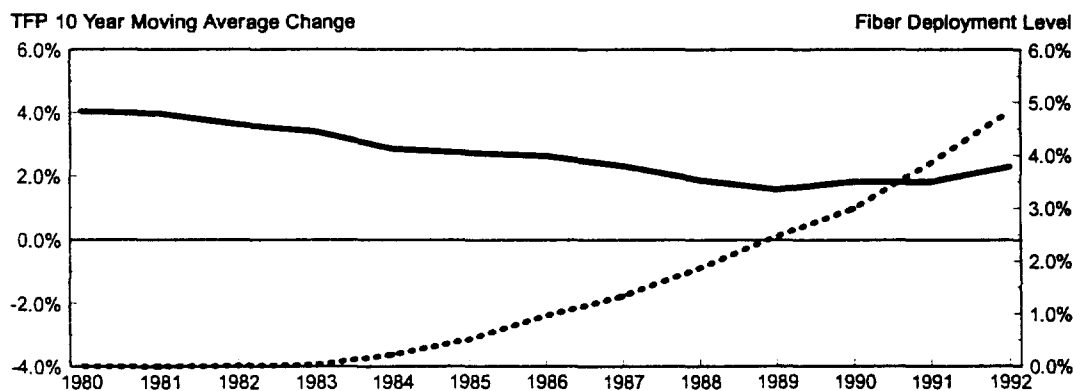
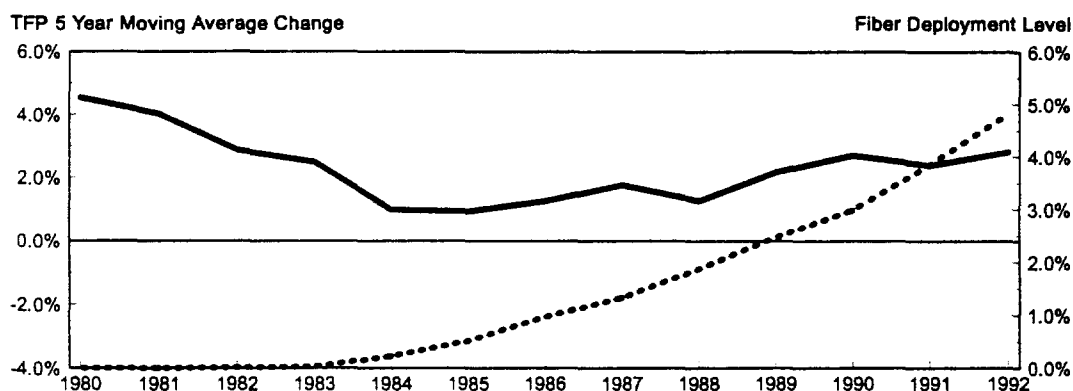
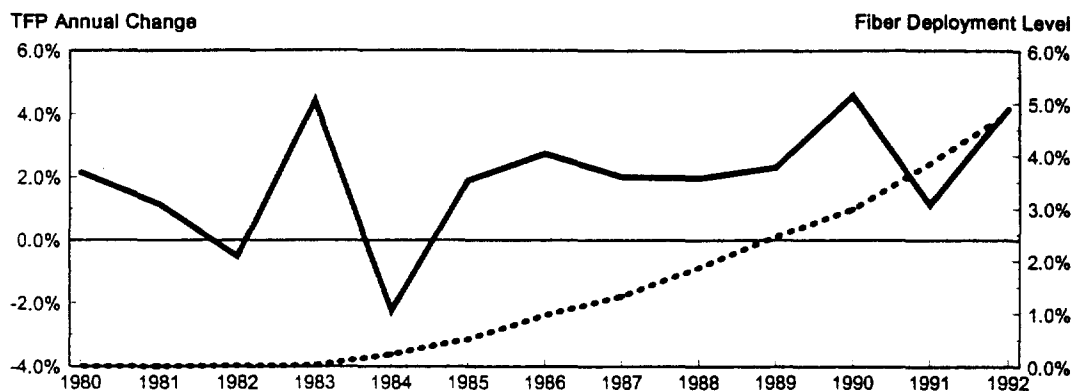
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TFP	ISDN
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Interest Rates Fell Further Under the AT&T Price Cap Plan Than Under the LEC Price Cap Plan

